

**POCAHONTAS AREA
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-----------------|
| Officials | 1 |
| Independent Auditor's Report | 2-3 |
| Management's Discussion and Analysis | 4-12 |
| Basic Financial Statements: | <u>Exhibit</u> |
| Government-wide Financial Statements: | |
| Statement of Net Assets | A 13 |
| Statement of Activities | B 14-15 |
| Governmental Fund Financial Statements: | |
| Balance Sheet | C 16 |
| Reconciliation of the Balance Sheet - Governmental Funds | |
| to the Statement of Net Assets | D 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | E 18 |
| Reconciliation of the Statement of Revenues, Expenditures and | |
| Changes in Fund Balances - Governmental Funds to the Statement | |
| of Activities | F 19 |
| Proprietary Fund Financial Statements: | |
| Statement of Revenues, Expenses and Changes in Net Assets | G 20 |
| Statement of Cash Flows | H 21 |
| Fiduciary Fund Financial Statements: | |
| Statement of Fiduciary Net Assets | I 22 |
| Statement of Changes in Fiduciary Net Assets | J 23 |
| Notes to Financial Statements | 24-29 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule of Revenues, Expenditures and | |
| Changes in Balances - Budget and Actual - All Governmental Funds | |
| and Proprietary Fund | 30 |
| Notes to Required Supplementary Information - Budgetary Reporting | 31 |
| Other Supplementary Information: | <u>Schedule</u> |
| Nonmajor Special Revenue Funds: | |
| Combining Balance Sheet | 1 32 |
| Combining Schedule of Revenues, Expenditures and Changes in | |
| Fund Balances | 2 33 |
| Schedule of Changes in Special Revenue Fund, Student Activity Accounts | 3 34-35 |
| Schedule of Revenues by Source and Expenditures by Function - | |
| All Governmental Funds | 4 36 |
| Independent Auditor's Report on Internal Control over Financial Reporting | |
| and on Compliance and Other Matters Based on an Audit of Financial | |
| Statements Performed in Accordance with <u>Government Auditing Standards</u> | 37-38 |
| Schedule of Findings | 39-40 |

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------|--------------|---------------------|
|-------------|--------------|---------------------|

Board of Education

(Before September, 2006 Election)

| | | |
|------------------|----------------|------|
| Raymond Seehusen | President | 2006 |
| Jeff Kerns | Vice President | 2007 |
| Thomas Nedved | | 2007 |
| Dan Duitscher | | 2008 |
| Jody Lyon | | 2006 |
| Darwin Eaton | | 2008 |
| John Behrendsen | | 2008 |

(After September, 2006 Election)

| | | |
|------------------|----------------|------|
| Raymond Seehusen | President | 2009 |
| Jeff Kerns | Vice President | 2007 |
| Thomas Nedved | | 2007 |
| Dan Duitscher | | 2008 |
| Richard Garner | | 2009 |
| Darwin Eaton | | 2008 |
| John Behrendsen | | 2008 |

School Officials

| | |
|---------------|----------------------------------|
| Joseph Kramer | Superintendent |
| Diane Pattee | District Secretary/ Treasurer |

BRUCE D. FRINK

Certified Public Accountant

To the Board of Education of
Pocahontas Area Community School District:

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 25 years of Expertise and Experience
- Evenings & Saturdays Available
- Extended Hours During Tax Season

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pocahontas Area Community School District, Pocahontas, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

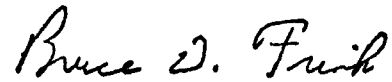
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pocahontas Area Community School District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated February 4, 2008 on our consideration of Pocahontas Area Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pocahontas Area Community School District's basic financial statements. We previously audited the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Bruce D. Frink". The signature is written in a cursive, flowing style.

BRUCE D. FRINK
Certified Public Accountant

February 4, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Pocahontas Area Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,711,500 in fiscal year 2006 to \$5,606,735 in fiscal year 2007 (a 1% decrease), while General Fund expenditures decreased from \$5,809,070 in fiscal year 2006 to \$5,635,085 in fiscal year 2007 (a 3% decrease).
- General Fund revenues decreased primarily from decreases in state funding. The decrease in expenditures was due primarily to decreases in salary and benefits and cost containment measures. The General Fund balance decreased over \$28,000 in the prior fiscal year, a 1% decrease.
- An increase in interest rates resulted in an increase in interest earnings in the General Fund of over \$14,000.
- Local option sales tax revenues continue to be collected from all counties. The fund is being saved for future infrastructure projects.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Pocahontas Area Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Pocahontas Area Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Pocahontas Area Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Pocahontas Area Community School District Annual Financial Report

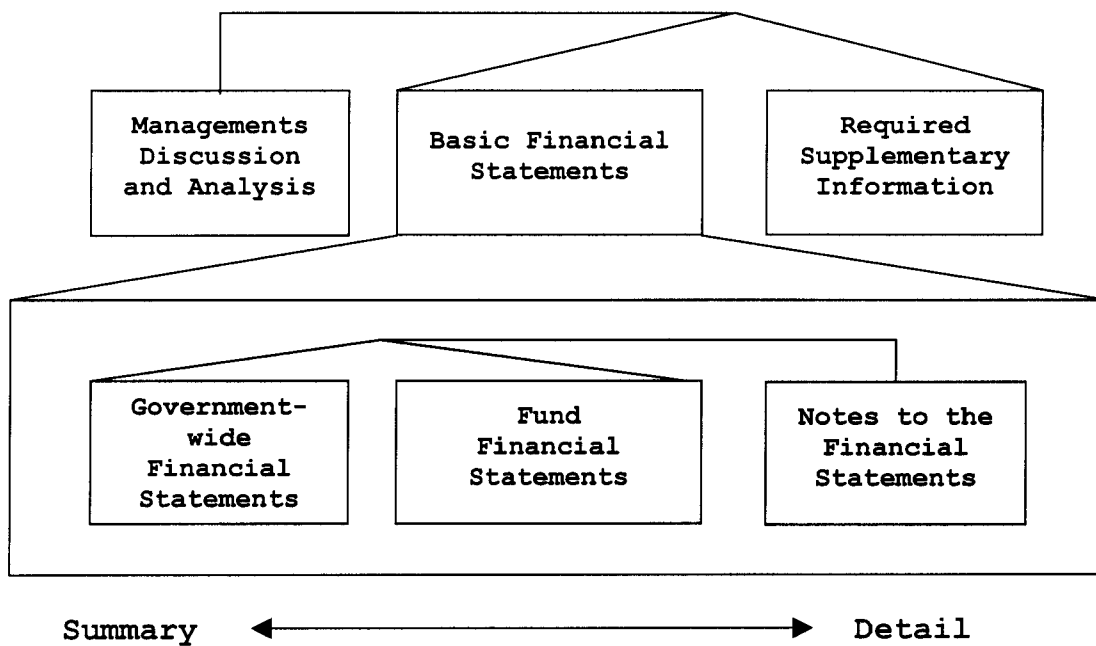


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

| Figure A-2 Major Features of the Government-wide and Fund Financial Statements | | | | |
|---|--|--|--|---|
| | Government-wide Statements | Fund Statements | | |
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire District (except fiduciary funds) | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance | Activities the District operates similar to private businesses; food services and adult education | Instances in which the district administers resources on behalf of someone else, such as scholarship programs |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and the Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the Child Care Fund.

The required financial statements for proprietary funds include a Statement of Net Assets, a statement of revenues, expenses, changes in net assets and a Statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to June 30, 2006

Figure A-3
Condensed Statement of Net Assets
(Expressed in Thousands)

| | Governmental | | Business type | | Total | | Total |
|--|---------------------|--------------|----------------------|-------------|-----------------|--------------|------------------|
| | Activities | | Activities | | District | | Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2006-2007 |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Current assets | 5,522 | 5,144 | 43 | 24 | 5,565 | 5,168 | 7.68% |
| Capital assets | 1,890 | 2,161 | 7 | 9 | 1,897 | 2,170 | -12.58% |
| Total assets | <u>7,412</u> | <u>7,305</u> | <u>50</u> | <u>33</u> | <u>7,462</u> | <u>7,338</u> | <u>1.69%</u> |
| Current liabilities | 2,418 | 2,449 | - | - | 2,418 | 2,449 | -1.27% |
| Non-current liabilities | - | 32 | - | - | - | 32 | -100.00% |
| Total liabilities | <u>2,418</u> | <u>2,481</u> | <u>-</u> | <u>-</u> | <u>2,418</u> | <u>2,481</u> | <u>-2.54%</u> |
| Net Assets | | | | | | | |
| Invested in capital assets, net of related debt | 1,890 | 2,161 | 7 | 9 | 1,897 | 2,170 | -12.58% |
| Restricted | 1,607 | 1,148 | | | 1,607 | 1,148 | 39.98% |
| Unrestricted | 1,497 | 1,515 | 43 | 24 | 1,540 | 1,539 | 0.06% |
| Total net assets | <u>4,994</u> | <u>4,824</u> | <u>50</u> | <u>33</u> | <u>5,044</u> | <u>4,857</u> | <u>3.85%</u> |

Restricted assets grew over \$450,000, primarily as a result of sales tax collections and no expenditures from the Capital Projects Fund. Unrestricted net assets stayed steady as a result of cost containment measures in the General Fund. Capital assets decreased as depreciation expense (a non-cash item) exceed new purchases.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2007 and 2006.

Figure A-4
Change in Net Assets
(Expressed in Thousands)

| | Governmental Activities | | Business type Activities | | Total District | | Total Change |
|---|------------------------------------|--------------|-------------------------------------|-------------|---------------------------|--------------|-------------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2006-07 |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for service and sales | 319 | 314 | 144 | 146 | 463 | 460 | 0.65% |
| Operating grants, contributions and restricted interest | 1,118 | 1,013 | 119 | 125 | 1,237 | 1,138 | 8.70% |
| General revenues: | | | | | | | |
| Property tax | 2,393 | 2,389 | - | - | 2,393 | 2,389 | 0.17% |
| Local option sales tax | 349 | 472 | - | - | 349 | 472 | -26.06% |
| Unrestricted state grants | 2,283 | 2,437 | - | - | 2,283 | 2,437 | -6.32% |
| Unrestricted investment earnings | 74 | 60 | - | - | 74 | 60 | 23.33% |
| Other | 53 | 122 | - | - | 53 | 122 | -56.56% |
| Total revenues | <u>6,589</u> | <u>6,807</u> | <u>263</u> | <u>271</u> | <u>6,852</u> | <u>7,078</u> | <u>-3.19%</u> |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction | 3,892 | 4,083 | - | - | 3,892 | 4,083 | -4.68% |
| Support Services | 1,857 | 1,895 | - | - | 1,857 | 1,895 | -2.01% |
| Non-instructional programs | 3 | 4 | 245 | 264 | 248 | 268 | -7.46% |
| Other expenses | 668 | 838 | - | - | 668 | 838 | -20.29% |
| Total expenses | <u>6,420</u> | <u>6,820</u> | <u>245</u> | <u>264</u> | <u>6,665</u> | <u>7,084</u> | <u>-5.91%</u> |
| Change in net assets | <u>169</u> | <u>(13)</u> | <u>18</u> | <u>7</u> | <u>187</u> | <u>(6)</u> | <u>3216.67%</u> |

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,588,755 and expenses were \$6,180,794.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

| | Total Cost of Services | | Net Change | Net Cost of Services | | Net Change |
|---------------------------|---------------------------|-------|---------------|-------------------------|-------|---------------|
| | 2007 | 2006 | 2006-07 | 2007 | 2006 | 2006-07 |
| | \$ | \$ | % | \$ | \$ | % |
| Instruction | 3,892 | 4,083 | -4.68% | 2,725 | 3,032 | -10.13% |
| Support Services | 1,857 | 1,895 | -2.01% | 1,832 | 1,839 | -0.38% |
| Noninstructional Programs | 3 | 4 | -25.00% | 3 | 4 | -25.00% |
| Other expenses | 668 | 838 | -20.29% | 423 | 618 | -31.55% |
| Totals | 6,420 | 6,820 | -5.87% | 4,983 | 5,493 | -9.28% |

- The cost financed by users of the District's programs was \$318,784.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$579,367.
- The net cost of governmental activities was financed with \$2,392,476 in property tax, \$2,283,619 in state foundation aid, and \$74,136 in interest income.

Business-Type Activities

Revenues of the District's business type activities were \$262,449 and expenses were \$244,807. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted Pocahontas Area Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 4,994,333, a 4% increase from last year's ending fund balances of \$4,824,971.

Governmental Fund Highlights

- The District's General Fund balance decreased due to revenues not being able to keep pace with expenses. Expenses decreased by over \$100,000 due to careful monitoring of spending.
- The District's Capital Project Fund increased as a result of the District collecting local option sales tax from all counties along with no spending from these funds.

Proprietary Fund Highlights

The District's Nutrition Fund increased primarily as a result of cost reductions.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

Legal Budgetary Highlights

The District's receipts were \$70,397 less than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving less in state and federal aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$1.9 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 11% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$368,594.

The original cost of the District's capital assets was \$6,523,060. Governmental funds account for \$6,485,968, with the remainder of \$37,092 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(Expressed in Thousands)

| | Governmental Activities | | Business type Activities | | Total District | | Total Change |
|-------------------------|----------------------------|--------------|-----------------------------|----------|-------------------|--------------|-----------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2006-07 |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Land | 144 | 144 | - | - | 144 | 144 | 0.00% |
| Site improvements | 61 | 77 | - | - | 61 | 77 | -20.78% |
| Buildings | 1,416 | 1,485 | - | - | 1,416 | 1,485 | -4.65% |
| Furniture and equipment | 270 | 455 | 7 | 9 | 277 | 464 | -40.30% |
| Totals | <u>1,891</u> | <u>2,161</u> | <u>7</u> | <u>9</u> | <u>1,898</u> | <u>2,170</u> | <u>-12.53%</u> |

Long-Term Debt

The District has no long-term indebtedness.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District has experienced declining enrollment the past several years.
- The allowable growth rate of 4% provided by the Legislature is inadequate to meet expected cost increases.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Diane Pattee, District Secretary, Pocahontas Area Community School District, 202 1st Ave SW, Pocahontas, IA 50574-1910.

Basic Financial Statements

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|------------------|
| | \$ | \$ | \$ |
| Assets | | | |
| Cash and pooled investments | 2,878,744 | 36,060 | 2,914,804 |
| Receivables: | | | |
| Property tax: | | | |
| Current year | 28,696 | - | 28,696 |
| Succeeding year | 2,340,213 | - | 2,340,213 |
| Due from other governments | 175,969 | - | 175,969 |
| Other receivables | 98,260 | 30 | 98,290 |
| Inventory | - | 7,322 | 7,322 |
| Capital assets, net of accumulated depreciation | 1,890,442 | 7,070 | 1,897,512 |
| Total assets | 7,412,324 | 50,482 | 7,462,806 |
| Liabilities | | | |
| Accounts payable | 51,858 | - | 51,858 |
| Accrued payroll and benefits | 25,920 | - | 25,920 |
| Deferred revenue: | | | |
| Succeeding year property tax | 2,340,213 | - | 2,340,213 |
| Total liabilities | 2,417,991 | - | 2,417,991 |
| Net assets | | | |
| Invested in capital assets, net of related debt | 1,890,442 | 7,070 | 1,897,512 |
| Restricted for: | | | |
| Internal services | 126,851 | - | 126,851 |
| Management levy | 160,015 | - | 160,015 |
| Student activities | 96,854 | - | 96,854 |
| Physical plant and equipment levy | 226,380 | - | 226,380 |
| Capital projects | 996,404 | - | 996,404 |
| Unrestricted | 1,497,387 | 43,412 | 1,540,799 |
| Total net assets | 4,994,333 | 50,482 | 5,044,815 |

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

| | Program Revenues | | | Net (Expense) Revenues and Changes in Net Assets | | |
|-----------|--|-----------|-------------|---|-------------|-------------|
| | Operating Grants, Contributions and Restricted Interest | | | Business Type Activities | | |
| | Charges for Service | | | Governmental Activities | | Total |
| Expenses | | | | | | |
| \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| 3,891,845 | 318,189 | 848,392 | (2,725,264) | - | (2,725,264) | |
| 185,746 | - | - | (185,746) | - | (185,746) | (185,746) |
| 177,872 | - | - | (177,872) | - | (177,872) | (177,872) |
| 702,218 | - | - | (702,218) | - | (702,218) | (702,218) |
| 529,866 | - | 24,243 | (505,623) | - | (505,623) | (505,623) |
| 260,818 | 595 | - | (260,223) | - | (260,223) | (260,223) |
| 1,856,520 | 595 | 24,243 | (1,831,682) | - | (1,831,682) | (1,831,682) |
| 2,824 | - | - | (2,824) | - | (2,824) | (2,824) |
| 225,342 | - | 225,342 | - | - | - | - |
| 76,196 | - | 20,097 | (56,099) | - | (56,099) | (56,099) |
| 366,666 | - | - | (366,666) | - | (366,666) | (366,666) |
| 668,204 | - | 245,439 | (422,765) | - | (422,765) | (422,765) |
| 6,419,393 | 318,784 | 1,118,074 | (4,982,535) | - | (4,982,535) | (4,982,535) |

Functions/Programs

Governmental activities:

Instruction:

Support services:

Student services

Instructional staff services

Administration services

Operation and maintenance of plant services

Transportation services

Non-instructional programs:

Community service operations

Other expenditures:

AEA flowthrough

Facilities acquisition and construction

Depreciation (unallocated)*

Total governmental activities

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

| | Program Revenues | | Net (Expense) Revenues and Changes in Net Assets | |
|----------------------------------|------------------------|--|---|-----------------------------|
| | Charges for Service | Operating Grants, Contributions and Restricted Interest | Governmental Activities | Business Type Activities |
| Expenses | | | | Total |
| \$ | \$ | \$ | \$ | \$ |
| Business type activities: | | | | |
| Non-instructional programs: | | | | |
| Nutrition services | 244,807 | 143,689 | - | 17,642 |
| Total | 6,664,200 | 462,473 | (4,982,535) | (4,964,893) |
| General revenues: | | | | |
| Property tax levied for: | | | | |
| General purposes | | | 2,045,848 | - |
| Management | | | 150,054 | - |
| Capital outlay | | | 196,574 | - |
| Local option sales tax | | | 348,895 | - |
| Unrestricted state grants | | | 2,283,619 | - |
| Unrestricted investment earnings | | | 74,136 | - |
| Other | | | 52,771 | - |
| Total general revenue | | | 5,151,897 | 5,151,897 |
| Change in net assets | | | 169,362 | 17,642 |
| Net assets beginning of year | | | 4,824,971 | 32,840 |
| Net assets end of year | | | 4,994,333 | 50,482 |
| | | | | 5,044,815 |

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

| | General | Physical Plant and Equipment Levy | Capital Projects | Nonmajor Special Revenue | Total |
|--|------------------|--|---------------------|--------------------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Assets | | | | | |
| Cash and pooled investments | 1,505,552 | 224,017 | 873,949 | 275,226 | 2,878,744 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Current year | 24,529 | 2,363 | - | 1,804 | 28,696 |
| Succeeding year | 1,963,395 | 196,818 | - | 180,000 | 2,340,213 |
| Due from other governments | 73,611 | - | 102,358 | - | 175,969 |
| Other receivables | 76,794 | - | 20,097 | 1,369 | 98,260 |
| Total assets | <u>3,643,881</u> | <u>423,198</u> | <u>996,404</u> | <u>458,399</u> | <u>5,521,882</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | 30,328 | - | - | 21,530 | 51,858 |
| Accrued payroll and benefits | 25,920 | - | - | - | 25,920 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 1,963,395 | 196,818 | - | 180,000 | 2,340,213 |
| Total liabilities | <u>2,019,643</u> | <u>196,818</u> | <u>-</u> | <u>201,530</u> | <u>2,417,991</u> |
| Fund balances: | | | | | |
| Reserved for internal services | 126,851 | - | - | - | 126,851 |
| Reserved for capital projects | - | - | 996,404 | - | 996,404 |
| Unreserved | 1,497,387 | 226,380 | - | 256,869 | 1,980,636 |
| Total fund balances | <u>1,624,238</u> | <u>226,380</u> | <u>996,404</u> | <u>256,869</u> | <u>3,103,891</u> |
| Total liabilities and fund balances | <u>3,643,881</u> | <u>423,198</u> | <u>996,404</u> | <u>458,399</u> | <u>5,521,882</u> |

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2007

| | |
|--|---------------------|
| Total fund balances of governmental funds (Exhibit C) | \$ 3,103,891 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | <u>1,890,442</u> |
| Net assets of governmental activities (Exhibit A) | <u>\$ 4,994,333</u> |

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2007

| | General | Physical Plant and Equipment Levy | Capital Projects | Nonmajor Special Revenue | Total |
|--|------------------|--|---------------------|--------------------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | 2,045,848 | 196,574 | 348,895 | 150,054 | 2,741,371 |
| Tuition | 306,267 | - | - | - | 306,267 |
| Other | 166,568 | 9,588 | 20,097 | 256,536 | 452,789 |
| State sources | 2,892,480 | 156 | - | 120 | 2,892,756 |
| Federal sources | 195,572 | - | - | - | 195,572 |
| Total revenues | <u>5,606,735</u> | <u>206,318</u> | <u>368,992</u> | <u>406,710</u> | <u>6,588,755</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | <u>3,638,741</u> | <u>-</u> | <u>-</u> | <u>285,399</u> | <u>3,924,140</u> |
| Support services: | | | | | |
| Student services | 185,746 | - | - | - | 185,746 |
| Instructional staff services | 177,872 | - | - | - | 177,872 |
| Administration services | 651,219 | 50,999 | - | - | 702,218 |
| Operation and maintenance of plant services | 433,073 | - | - | 96,793 | 529,866 |
| Transportation services | <u>320,268</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>320,268</u> |
| | <u>1,768,178</u> | <u>50,999</u> | <u>-</u> | <u>96,793</u> | <u>1,915,970</u> |
| Non-instructional programs: | | | | | |
| Community service operations | <u>2,824</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,824</u> |
| Other expenditures: | | | | | |
| AEA flowthrough | 225,342 | - | - | - | 225,342 |
| Facilities acquisition and construction | <u>-</u> | <u>112,518</u> | <u>-</u> | <u>-</u> | <u>112,518</u> |
| | <u>225,342</u> | <u>112,518</u> | <u>-</u> | <u>-</u> | <u>337,860</u> |
| Total expenditures | <u>5,635,085</u> | <u>163,517</u> | <u>-</u> | <u>382,192</u> | <u>6,180,794</u> |
| Excess (deficiency) of revenues over (under) expenditures | (28,350) | 42,801 | 368,992 | 24,518 | 407,961 |
| Fund balances beginning of year | <u>1,652,588</u> | <u>183,579</u> | <u>627,412</u> | <u>232,351</u> | <u>2,695,930</u> |
| Fund balances end of year | <u>1,624,238</u> | <u>226,380</u> | <u>996,404</u> | <u>256,869</u> | <u>3,103,891</u> |

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities

Year ended June 30, 2007

Net change in fund balances - total governmental funds (Exhibit E) \$ 407,961

Amounts reported for governmental activities in the
 statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

| | | |
|---------------------------------|------------------|-----------|
| Expenditures for capital assets | \$ 95,772 | |
| Depreciation expense | <u>(366,666)</u> | (270,894) |

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

32,295

Change in net assets of governmental activities (Exhibit B) \$ 169,362

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund

Year ended June 30, 2007

| | School Nutrition |
|------------------------------|----------------------|
| | <u>\$</u> |
| Operating revenue: | |
| Local sources: | |
| Charges for services | <u>143,689</u> |
| Operating expenses: | |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries | 64,473 |
| Benefits | 32,424 |
| Supplies | 145,982 |
| Depreciation | <u>1,928</u> |
| Total operating expenses | <u>244,807</u> |
| Operating (loss) | <u>(101,118)</u> |
| Non-operating revenues: | |
| State sources | 3,540 |
| Federal sources | 114,758 |
| Interest income | <u>462</u> |
| | <u>118,760</u> |
| Changes in net assets | 17,642 |
| Net assets beginning of year | <u>32,840</u> |
| Net assets end of year | <u><u>50,482</u></u> |

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2007

| | School Nutrition |
|---|----------------------|
| | \$ |
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | 143,689 |
| Cash payments to employees for services | (96,897) |
| Cash payments to suppliers for goods or services | (123,570) |
| Net cash (used in) operating activities | <u>(76,778)</u> |
| Cash flows from non-capital financing activities: | |
| State grants received | 3,540 |
| Federal grants received | 95,416 |
| Net cash provided by non-capital financing activities | <u>98,956</u> |
| Cash flows from investing activities: | |
| Interest on investments | <u>462</u> |
| Net (decrease) in cash and cash equivalents | 22,640 |
| Cash and cash equivalents beginning of year | <u>13,420</u> |
| Cash and cash equivalents end of year | <u><u>36,060</u></u> |
| Reconciliation of operating income (loss) to net cash used in operating activities: | |
| Operating (loss) | (101,118) |
| Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities: | |
| Depreciation | 1,928 |
| Commodities used | 19,342 |
| Decrease in inventory | 3,070 |
| | <u>(76,778)</u> |
| Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet: | |
| Current assets: | |
| Cash | <u><u>36,060</u></u> |
| Non-cash investing, capital and financing activities: | |

During the year ended June 30, 2007, the District received federal commodities valued at \$19,342.

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2007

| | Scholarship Fund |
|-----------------------------|---------------------|
| | <u>\$</u> |
| Assets | |
| Cash and pooled investments | <u>9,792</u> |
| Total assets | <u>9,792</u> |
| Net Assets | |
| Reserved for scholarships | <u><u>9,792</u></u> |

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2007

| | Private Purpose Trust Fund |
|------------------------------|----------------------------------|
| | \$ |
| Additions: | |
| Local sources: | |
| Miscellaneous | 1,459 |
| Total additions | <u>1,459</u> |
| Deductions: | |
| Support services: | |
| Scholarships | <u>2,575</u> |
| Change in net assets | (1,116) |
| Net assets beginning of year | <u>10,908</u> |
| Net assets end of year | <u><u>9,792</u></u> |

See notes to financial statements.

POCHONTAS AREA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

Pocahontas Area Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Pocahontas, Rolfe, Havelock & Plover, Iowa, and agricultural territory in Pocahontas and Palo Alto Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pocahontas Area Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Pocahontas Area Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Pocahontas County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| Land | \$ 1,000 |
| Buildings | 10,000 |
| Improvements other than buildings | 1,000 |
| Furniture and equipment: | |
| School Nutrition Fund equipment | 1,000 |
| Other furniture and equipment | 1,000 |

Capital assets are depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives (In Years)</u> |
|-----------------------------------|--|
| Buildings | 50 years |
| Improvements other than buildings | 20-50 years |
| Furniture and equipment | 5-15 years |

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2007.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures did not exceed the amounts budgeted in any of the four functions.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2007.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2007 was as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|------------------|-----------|---------------------------|
| | \$ | \$ | \$ | \$ |
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | <u>143,945</u> | <u>-</u> | <u>-</u> | <u>143,945</u> |
| Capital assets being depreciated: | | | | |
| Site Improvements | 319,354 | - | - | 319,354 |
| Buildings | 3,445,085 | - | - | 3,445,085 |
| Furniture and Equipment | <u>2,481,812</u> | <u>95,772</u> | <u>-</u> | <u>2,577,584</u> |
| Total capital assets being depreciated | <u>6,246,251</u> | <u>95,772</u> | <u>-</u> | <u>6,342,023</u> |
| Less accumulated depreciation for: | | | | |
| Site Improvements | 242,563 | 15,968 | - | 258,531 |
| Buildings | 1,960,163 | 68,902 | - | 2,029,065 |
| Furniture and Equipment | <u>2,026,134</u> | <u>281,796</u> | <u>-</u> | <u>2,307,930</u> |
| Total accumulated depreciation | <u>4,228,860</u> | <u>366,666</u> | <u>-</u> | <u>4,595,526</u> |
| Total capital assets being depreciated, net | <u>2,017,391</u> | <u>(270,894)</u> | <u>-</u> | <u>1,746,497</u> |
| Governmental activities, capital assets, net | <u>2,161,336</u> | <u>(270,894)</u> | <u>-</u> | <u>1,890,442</u> |

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| | \$ | \$ | \$ | \$ |
| Business type activities: | | | | |
| Furniture and equipment | 37,092 | - | - | 37,092 |
| Less accumulated depreciation | 28,094 | 1,928 | - | 30,022 |
| Business type activities capital assets, net | 8,998 | (1,928) | - | 7,070 |

Depreciation expense was charged to the following functions:

Governmental activities:

Unallocated

366,666
366,666

Business Type activities

Food service operations

1,928
1,928

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$201,803, \$206,881, and \$207,021 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$225,342 for year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Commitment

In June, 2007 the District accepted bids totaling \$44,800 for a roof replacement and repairs. The work was completed after July 1, 2007.

Required Supplementary Information

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2007

| | Governmental Fund Types | Proprietary Fund Type | Total Actual | Budgeted Amounts | Final to Actual Variance - Positive (Negative) |
|--|----------------------------|--------------------------|-----------------|------------------|--|
| | Actual | Actual | Actual | Original | Final |
| | \$ | \$ | \$ | \$ | \$ |
| Revenues: | | | | | |
| Local sources | 3,500,427 | 144,151 | 3,644,578 | 3,548,094 | 96,484 |
| State sources | 2,892,756 | 3,540 | 2,896,296 | 3,008,507 | (112,211) |
| Federal sources | 195,572 | 114,758 | 310,330 | 365,000 | (54,670) |
| Total revenues | 6,588,755 | 262,449 | 6,851,204 | 6,921,601 | (70,397) |
| Expenditures: | | | | | |
| Instruction | 3,924,140 | - | 3,924,140 | 5,113,706 | 1,189,566 |
| Support services | 1,915,970 | - | 1,915,970 | 2,419,945 | 503,975 |
| Non-instructional programs | 2,824 | 244,807 | 247,631 | 361,135 | 113,504 |
| Other expenditures | 337,860 | - | 337,860 | 1,009,487 | 671,627 |
| Total expenditures | 6,180,794 | 244,807 | 6,425,601 | 8,904,273 | 2,478,672 |
| Excess (deficiency) of revenues over (under) expenditures | 407,961 | 17,642 | 425,603 | (1,982,672) | 2,408,275 |
| Other financing sources (uses) | - | - | - | - | - |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures | 407,961 | 17,642 | 425,603 | (1,982,672) | 2,408,275 |
| Balance beginning of year | 2,695,930 | 32,840 | 2,728,770 | 2,410,971 | 317,799 |
| Balance end of year | 3,103,891 | 50,482 | 3,154,373 | 428,299 | 2,726,074 |

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures did not exceed the amount budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2007

| | Management | Student Activity | Total |
|-------------------------------------|----------------|------------------|----------------|
| | \$ | \$ | \$ |
| Assets | | | |
| Cash and pooled investments | 179,248 | 95,978 | 275,226 |
| Property tax receivable: | | | |
| Current year | 1,804 | - | 1,804 |
| Succeeding year | 180,000 | - | 180,000 |
| Other receivables | 493 | 876 | 1,369 |
| | <u>361,545</u> | <u>96,854</u> | <u>458,399</u> |
| Total assets | | | |
| | <u>361,545</u> | <u>96,854</u> | <u>458,399</u> |
| Liabilities and Fund Balance | | | |
| Liabilities: | | | |
| Accounts payable | 21,530 | - | 21,530 |
| Deferred revenue: | | | |
| Succeeding year property tax | 180,000 | - | 180,000 |
| | <u>201,530</u> | <u>-</u> | <u>201,530</u> |
| Fund balance: | | | |
| Unreserved fund balance | 160,015 | 96,854 | 256,869 |
| | <u>160,015</u> | <u>96,854</u> | <u>256,869</u> |
| Total liabilities and fund balance | <u>361,545</u> | <u>96,854</u> | <u>458,399</u> |

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2007

| | Management | Student Activity | Total |
|--------------------------------------|-----------------------|----------------------|-----------------------|
| | \$ | \$ | \$ |
| Revenues: | | | |
| Local sources: | | | |
| Local tax | 150,054 | - | 150,054 |
| Other | 14,379 | 242,157 | 256,536 |
| State sources | 120 | - | 120 |
| Total revenues | <u>164,553</u> | <u>242,157</u> | <u>406,710</u> |
| Expenditures: | | | |
| Instruction: | 57,713 | 227,686 | 285,399 |
| Support services: | | | |
| Student services | - | - | - |
| Administration services | - | - | - |
| Plant operation and maintenance | 96,793 | - | 96,793 |
| Student transportation | - | - | - |
| Total expenditures | <u>154,506</u> | <u>227,686</u> | <u>382,192</u> |
| Excess of revenues over expenditures | 10,047 | 14,471 | 24,518 |
| Fund balances beginning of year | <u>149,968</u> | <u>82,383</u> | <u>232,351</u> |
| Balance end of year | <u><u>160,015</u></u> | <u><u>96,854</u></u> | <u><u>256,869</u></u> |

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

| Account | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|----------------------------------|---------------------------------|----------|--------------|---------------------------|
| | \$ | \$ | \$ | \$ |
| Concessions | - | 31 | 31 | - |
| Computer Supplies | 717 | - | - | 717 |
| Graduated Classes | 3,636 | - | 40 | 3,596 |
| Class of 2005 | 1,469 | - | 35 | 1,434 |
| Class of 2006 | 1,678 | - | 38 | 1,640 |
| Class of 2007 | 3,264 | 165 | 3,073 | 356 |
| Class of 2008 | 499 | 15,559 | 11,892 | 4,166 |
| Class of 2009 | 241 | 330 | 275 | 296 |
| Class of 2010 | - | 310 | 297 | 13 |
| Towel Fee | 697 | - | - | 697 |
| Locker Rent | 2,566 | 260 | 330 | 2,496 |
| Board of Education | 7 | 773 | 495 | 285 |
| Mock Trial | 1,456 | 359 | 1,257 | 558 |
| Pop/Juice Rolfe Center | 28 | - | 28 | - |
| Pop/Juice - Vending | 1,820 | 12,202 | 11,069 | 2,953 |
| Restroom - Vending | 182 | - | - | 182 |
| Administrative Resale | 61 | - | - | 61 |
| Vocal Music | 1,727 | 1,878 | 1,533 | 2,072 |
| Instrumental Music | 2,273 | 5,060 | 4,190 | 3,143 |
| Band Uniforms | 89 | 495 | - | 584 |
| Band Insurance | 686 | - | - | 686 |
| Drill Team | 120 | 11,879 | 9,530 | 2,469 |
| Cheerleader Trip Fund | 290 | - | - | 290 |
| Football | - | 11,277 | 8,500 | 2,777 |
| Activity Trips | 208 | - | - | 208 |
| Cheerleaders | 3,248 | 2,487 | 3,298 | 2,437 |
| Weight Training | 187 | - | - | 187 |
| Golf | - | 1,463 | 1,463 | - |
| Basketball | - | 15,180 | 14,627 | 553 |
| Boys Basketball Camp | 1,156 | 3,032 | 2,703 | 1,485 |
| Volleyball | 33 | 3,130 | 3,163 | - |
| Softball/Baseball | 500 | 11,357 | 11,857 | - |
| Softball Trips | 187 | 1,028 | 665 | 550 |
| Track | - | 10,783 | 10,433 | 350 |
| Track Trip - Boys | 725 | 554 | 859 | 420 |
| Track Trip - Girls | 2,046 | 1,110 | 666 | 2,490 |
| Cross Country | 206 | 795 | 1,001 | - |
| Wrestling | - | 3,079 | 3,079 | - |
| Activity Tickets | - | 8,555 | 8,490 | 65 |
| Activity Tickets/Senior Citizens | 822 | 60 | - | 882 |
| Volleyball Mothers | - | - | - | - |
| Wrestling Mothers | 4,655 | 4,873 | 3,322 | 6,206 |
| Football Camp | 2,275 | 6,264 | 3,999 | 4,540 |
| Athletic Resale | 522 | 528 | 576 | 474 |
| Volleyball Camp | 387 | 484 | 334 | 537 |

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

| Account | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|------------------------------|---------------------------------|----------|--------------|---------------------------|
| | \$ | \$ | \$ | \$ |
| District Football | - | - | - | - |
| Marketing Class | 108 | - | - | 108 |
| Cross Country Special Fund | - | 983 | 875 | 108 |
| Trading Post Store | 2,049 | 23,371 | 24,925 | 495 |
| JH Student Council | 739 | - | - | 739 |
| Science Club | 47 | - | - | 47 |
| Art Club | 375 | - | 69 | 306 |
| Mystery Photo Contest | 50 | - | - | 50 |
| Student Council | - | 762 | 674 | 88 |
| FFA | 316 | 23,009 | 21,755 | 1,570 |
| Home Ec Club | 53 | 180 | 219 | 14 |
| Home Ec Resale | 160 | 404 | 525 | 39 |
| Spanish Club | 192 | - | - | 192 |
| Annual | 2,339 | 14,122 | 14,233 | 2,228 |
| Softball Concessions | 8,840 | 9,954 | 8,324 | 10,470 |
| Baseball Concessions | 8,023 | 9,505 | 10,332 | 7,196 |
| Newspaper | 7 | - | - | 7 |
| Dramatics | 504 | 1,085 | 1,018 | 571 |
| National Honor Society | 22 | 282 | 304 | - |
| Baseball Mothers | 3,632 | 2,247 | 4,934 | 945 |
| Jr High Math | 93 | - | - | 93 |
| Softball Parents | 3,263 | 979 | 564 | 3,678 |
| Elementary Sunshine Fund | 227 | 530 | 715 | 42 |
| Energy and Power Class | 300 | - | - | 300 |
| Swing Choir | 251 | - | - | 251 |
| Mentoring Program | 45 | - | - | 45 |
| Task Force Fund | 7 | - | - | 7 |
| MS Fund | 59 | 3 | 62 | - |
| MS Concessions | 935 | 3,286 | 3,374 | 847 |
| Jump Rope for Heart | 859 | 1,626 | 1,677 | 808 |
| HS Take Charge for Education | 514 | 906 | 296 | 1,124 |
| Special Education | 43 | - | - | 43 |
| MS Take Charge for Education | 165 | 1,099 | 927 | 337 |
| Carnival | 1,970 | 2,870 | 1,429 | 3,411 |
| After Prom Party | 920 | 6,986 | 6,628 | 1,278 |
| Interest | 4,613 | 2,628 | 679 | 6,562 |
| Total | 82,383 | 242,157 | 227,686 | 96,854 |

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

| | Modified Accrual Basis | | | |
|------------------------------------|------------------------|------------------|------------------|------------------|
| | 2007 | 2006 | 2005 | 2004 |
| | \$ | \$ | \$ | \$ |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | 2,741,371 | 2,860,784 | 2,427,585 | 2,517,174 |
| Tuition | 306,267 | 299,640 | 272,844 | 372,820 |
| Other | 452,789 | 474,365 | 647,988 | 469,473 |
| State sources | 2,892,756 | 2,977,811 | 3,044,235 | 2,770,916 |
| Federal sources | 195,572 | 194,882 | 246,869 | 208,871 |
| Total | <u>6,588,755</u> | <u>6,807,482</u> | <u>6,639,521</u> | <u>6,339,254</u> |
| Expenditures: | | | | |
| Instruction | 3,924,140 | 4,082,812 | 4,178,727 | 4,429,520 |
| Support services: | | | | |
| Student | 185,746 | 210,223 | 216,071 | 221,500 |
| Instructional staff | 177,872 | 171,911 | 263,801 | 105,627 |
| Administration | 702,218 | 660,310 | 587,190 | 599,322 |
| Operation and maintenance of plant | 529,866 | 572,294 | 917,113 | 502,100 |
| Transportation | 320,268 | 280,330 | 252,082 | 297,064 |
| Non-instructional programs | 2,824 | 4,037 | 2,790 | 5,165 |
| Other expenditures: | | | | |
| Debt Service: | | | | |
| Principal | - | - | 24,457 | 54,459 |
| Interest | - | - | 612 | 3,274 |
| Facilities acquisition | 112,518 | 359,164 | - | 182,124 |
| AEA flowthrough | 225,342 | 219,447 | 222,156 | 226,294 |
| Total | <u>6,180,794</u> | <u>6,560,528</u> | <u>6,664,999</u> | <u>6,626,449</u> |

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 25 years of Expertise and Experience
- Evenings & Saturdays Available
- Extended Hours During Tax Season

To the Board of Education of the
Pocahontas Area Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pocahontas Area Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 4, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pocahontas Area Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Pocahontas Area Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pocahontas Area Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Pocahontas Area Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Pocahontas Area Community School District's financial statements that is more than inconsequential will not be prevented or detected by Pocahontas Area Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item 07-I-A is a material weakness.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether Pocahontas Area Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. We noted no instances of non-compliance or other matters to be described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pocahontas Area Community School District's response to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Pocahontas Area Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pocahontas Area Community School District and other parties to whom Pocahontas Area Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pocahontas Area Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

February 4, 2008

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

07-I-A Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We have noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will investigate possible alternatives to this situation.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

07-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2007.

07-II-B Certified Budget - Expenditures for the year ended June 30, 2007, did not exceed the amounts budgeted.

07-II-C Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

07-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

07-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.

07-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

- 07-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 07-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 07-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 07-II-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.